State of Alaska
FY2010 Governor's Operating Budget

Department of Transportation/Public Facilities
Marine Highway System
Results Delivery Unit Budget Summary

Marine Highway System Results Delivery Unit

Contribution to Department's Mission

Provide safe, secure, reliable and efficient transportation of people, goods and vehicles through the Alaska Marine Highway System by developing and implementing sound policy and procedures for operations, and staffing with well trained professionals who are sensitive to the needs of our customers.

Core Services

- The Alaska Marine Highway System (AMHS) operates 11 roll-on/roll-off passenger ships during the summer season and as few as 4 ships during the fall, winter and spring season. Weeks of operation are tailored to meet the needs of the traveling public and communities while maximizing revenue and minimizing costs.
- AMHS transports people, goods and vehicles to and from 32 ports along 3,500 route miles from Bellingham, Washington out the Aleutian Island chain to Unalaska.
- Shore operations includes 16 state-owned terminals and their staff who provide shelter and book passage for an average of over 320,000 passengers and stage over 100,000 vehicles per year aboard AMHS vessels.
- 776 shipboard employees crew AMHS vessels based upon U.S. Coast Guard (USCG) requirements and 164 shore side employees including terminal operators provide support to the vessels and crew.
- AMHS constantly maintains, repairs, refurbishes, and upgrades its vessels and terminal facilities. Hard use in a marine environment and the stringent regulations (state, federal, and international) governing passenger-carrying marine vessels determine the need for these activities.

End Result	Strategies to Achieve End Result
A: Improve mobility of people and goods. Target #1: Meet or exceed 95% satisfied customers with Marine Highway System reliability, convenience and efficiency. Status #1: Customer satisfaction with the Marine Highway System has stayed strong at 96% for the 4th year in a row, with a high percentage of respondents giving an excellent rating.	**A1: Provide reliable, convenient and efficient service.** Target #1: Meet or exceed industry standard for on-time departures. Status #1: On-time departures in 2008 were 93% which is an improvement over the 85% previous 3-year average and well above the industry standard of 75.1%, Target #2: Increase the frequency of port calls by 5% from the prior year. Status #2: The number of Alaska Marine Highway System port calls decreased between FY2007 and FY2008 by 8% from 7,626 to 7,019, and was short of the target of 8,007.
End Result	**Strategies to Achieve End Result**
B: Improve performance. Target #1: Increase the ratio of revenue per rider mile to the cost per rider mile by 2%. Status #1: The ratio of revenue per rider mile to the cost per rider mile decreased by 3% between FY2007 and FY2008.	**B1: Increase revenues.** Target #1: Increase onboard sales per passenger by 5% over the previous 3-year average. Status #1: Onboard sales per passenger were $28.63, which is a 4.5% decrease from the previous 3-year average of $29.98. Target #2: Increase passenger capacity utilization by

	3%. Status #2: Passenger capacity utilization was 29%, which is a 6% increase over the prior 3-year average of 27.3%.

Major Activities to Advance Strategies

- Design, procure and employ lighter, shuttle vessels that take advantage of state-of-the art technology
- Implement a ticket scanning system
- Optimize schedules
- Lease space to private providers
- Utilize lease vessels to reduce costs
- Provide end-of-road terminal and shuttle service
- Develop terminal prototypes for construction
- Ensure compliance with Shephard Act
- Provide access to shore excursion businesses
- Review organizational structure
- Improve fuel efficiency through the use of new fuel management technology
- Develop lay-up berths and facilities
- Analyze AMHS activities to identify cost savings

FY2010 Resources Allocated to Achieve Results

FY2010 Results Delivery Unit Budget: $125,400,900

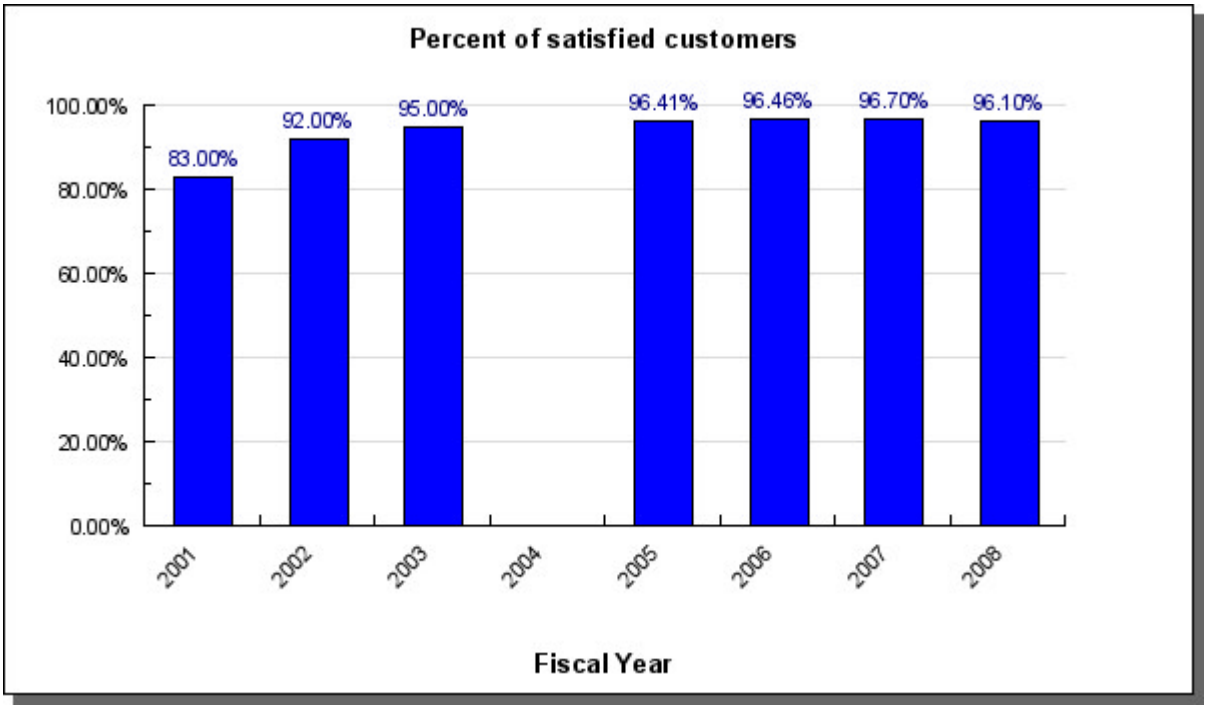
Personnel:	
Full time	849
Part time	86
Total	935

Performance

A: Result - Improve mobility of people and goods.

Target #1: Meet or exceed 95% satisfied customers with Marine Highway System reliability, convenience and efficiency.

Status #1: Customer satisfaction with the Marine Highway System has stayed strong at 96% for the 4th year in a row, with a high percentage of respondents giving an excellent rating.



Methodology: FY2004 Data is not available.

Analysis of results and challenges: Independent surveys are conducted onboard Alaska marine Highway System vessels at various points throughout the summer season. Passengers are asked to rate a variety of aspects relative to their experience. The survey data is summarized and the results are presented to management.

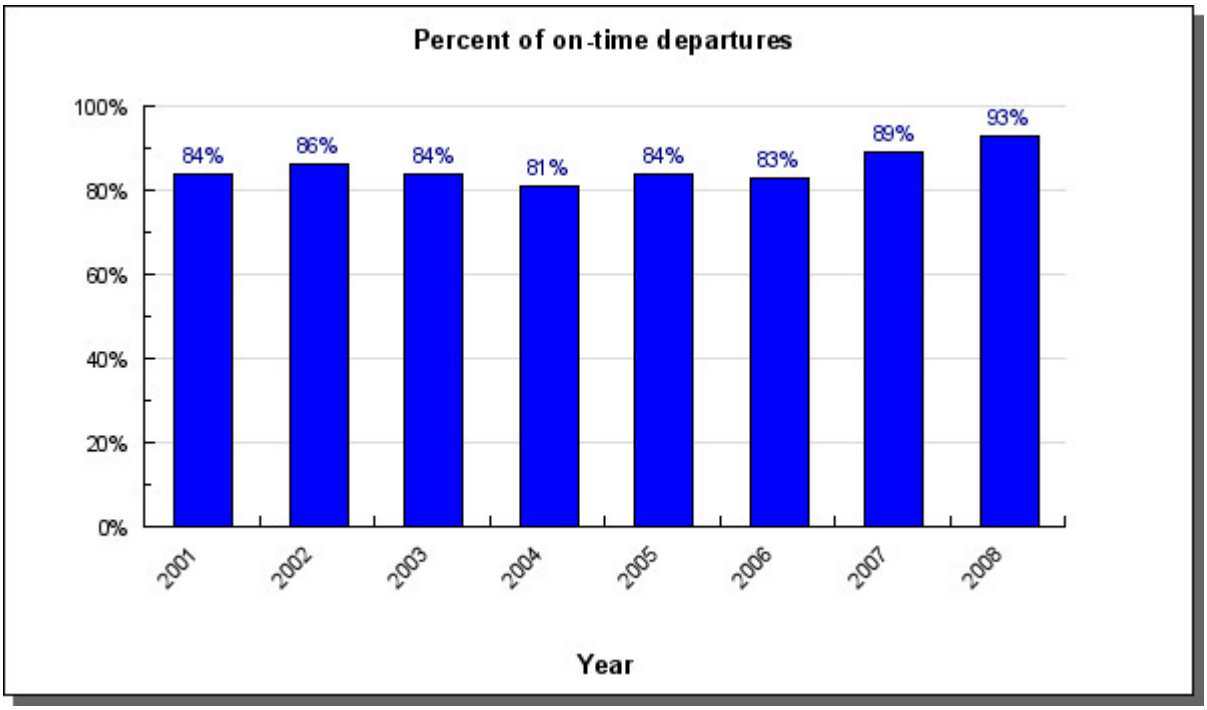
Alaska Marine Highway ensures a high degree of customer satisfaction through the development of a culture that cares about all passengers. Every section works to instill a high degree of responsibility to their staff to take care of our passengers.

We also credit our success to training. We have provided joint training at the “Senior Officers Meeting” in the areas of human resources, customer service, communication, information technology, procurement and interpersonal relationships. Training leads to more knowledgeable, confident employees; which in turn, transfers to great service to our passengers.

The Alaska Marine Highway System strives to improve the customer experience. We continue to look for new, better or different ways to improve the overall satisfaction of our passengers.

A1: Strategy - Provide reliable, convenient and efficient service.

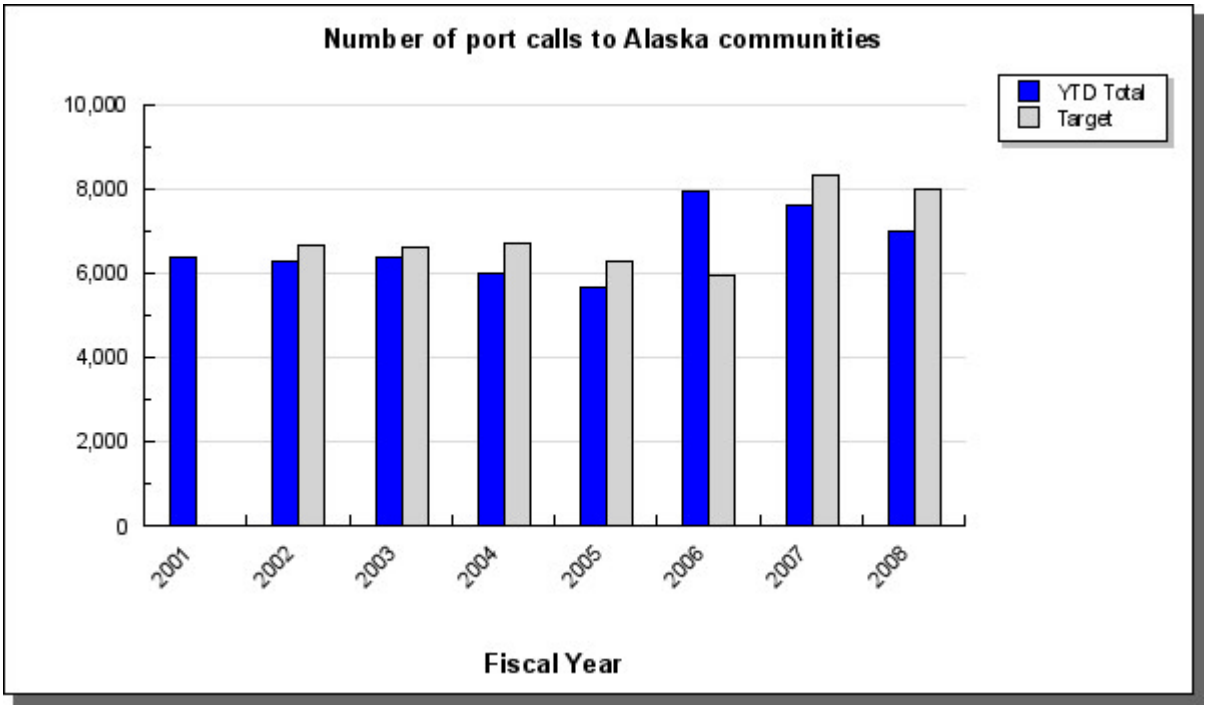
Target #1: Meet or exceed industry standard for on-time departures.
Status #1: On-time departures in 2008 were 93% which is an improvement over the 85% previous 3-year average and well above the industry standard of 75.1%,



Analysis of results and challenges: The target is for the Alaska Marine Highway System (AMHS) to consistently exceed the on-time airline departure benchmark of 75.1%. An on-time ferry departure is within 30 minutes of the scheduled departure time.

Numerous events can cause delays in ferry departure times, especially weather and tides. An additional relevant factor is the time it takes to load/unload large and/or low slung vehicles (RV's, trucks w/trailers, heavy equipment) during busy periods. Most of these factors are out of the control of AMHS. Nevertheless, making schedule modifications in the event of continual and systematic delays are within the department's control.

Target #2: Increase the frequency of port calls by 5% from the prior year.
Status #2: The number of Alaska Marine Highway System port calls decreased between FY2007 and FY2008 by 8% from 7,626 to 7,019, and was short of the target of 8,007.



Methodology: Target is increase of 5% from prior year.

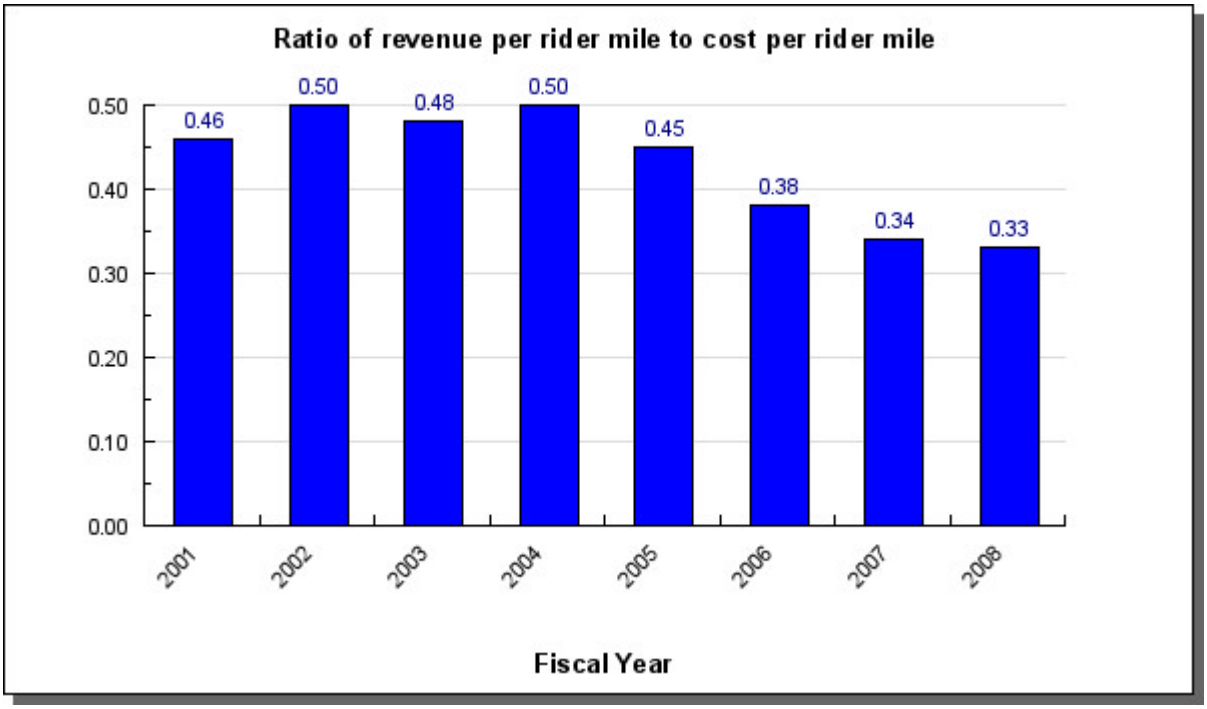
Number of port calls to Alaska communities

Fiscal Year	YTD Total	Target	Variance
FY 2008	7,019	8,007	-7.96%
FY 2007	7,626	8,337	-3.95%
FY 2006	7,940	5,964	+39.80%
FY 2005	5,680	6,306	-5.43%
FY 2004	6,006	6,710	-6.00%
FY 2003	6,390	6,613	+1.46%
FY 2002	6,298	6,687	-1.11%
FY 2001	6,369		0

Analysis of results and challenges: This measure reflects the service level provided to communities dependent upon the Marine Highway System. FY2008 showed an overall decrease in service weeks, from 427 in FY2007 to 375 in FY2008. Rising costs put pressure on the system to reduce the service levels being provided. That reduction in service resulted in reduced port calls.

B: Result - Improve performance.

Target #1: Increase the ratio of revenue per rider mile to the cost per rider mile by 2%.
Status #1: The ratio of revenue per rider mile to the cost per rider mile decreased by 3% between FY2007 and FY2008.



Ratio of revenue per rider mile to cost per rider mile

Fiscal Year	YTD Total
FY 2008	0.33 -2.94%
FY 2007	0.34 -10.53%
FY 2006	0.38 -15.56%
FY 2005	0.45 -10%
FY 2004	0.50 +4.17%
FY 2003	0.48 -4%
FY 2002	0.50 +8.7%
FY 2001	0.46

Analysis of results and challenges: FY2008 operational costs saw significant increases to the delivered cost of fuel, which brought the referenced ratio into a negative trend from the previous year. Delivered fuel cost $2.90 per gallon which is a 27% increase from the FY2007 average price of $2.28 per gallon. Other factors driving up the cost of service were labor increases of 3% negotiated with the Masters, Mates and Pilots (MMP) and Marine Engineers Beneficial Association (MEBA).

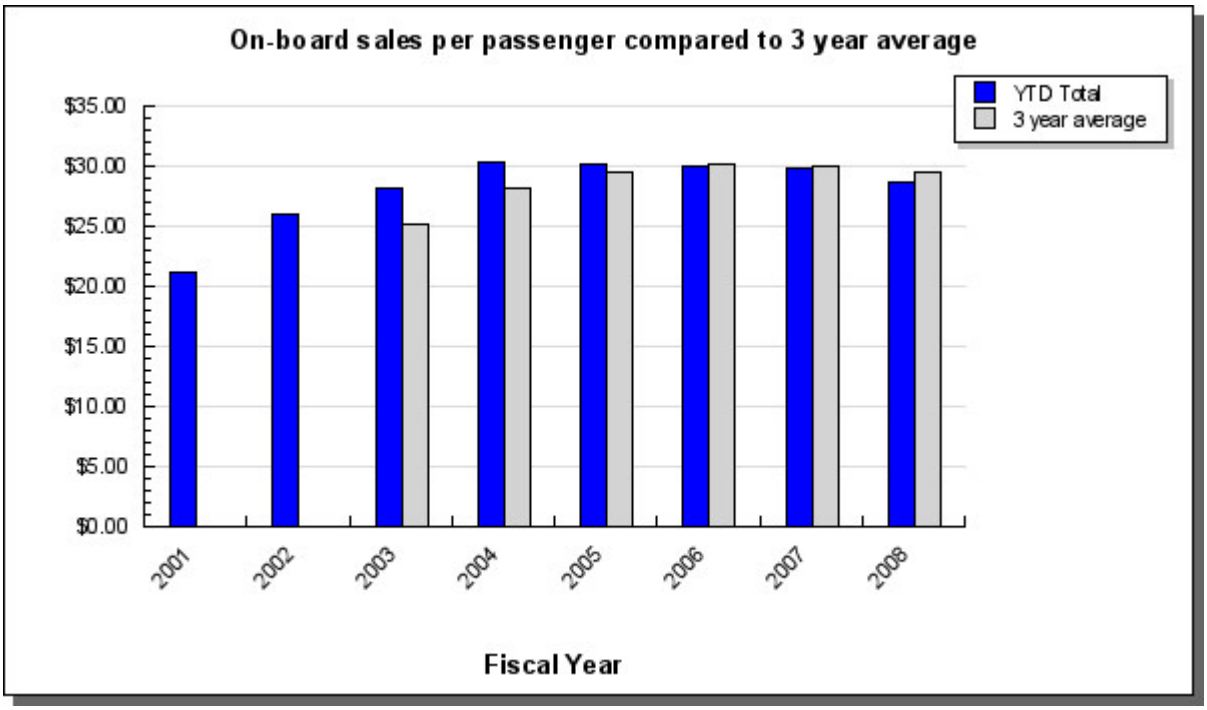
The Alaska Marine Highway System (AMHS) continued to see increased ridership as passenger and vehicle count were up 1% and 3% respectively but earned revenue fell 2.2%. The increase in ridership was for shorter or winter voyages that do not generate a great deal of revenue. This is related to the Malaspina being converted from a long

haul vessel to a day boat operation. Revenues were also negatively impacted by a generator fire aboard the Columbia which curtailed its operations during the summer season. AMHS put in place a 3.2% tariff increase at the start of FY2008.

AMHS is in the process of evaluating the upgrading of the fleet with the addition of shuttle ferries. The vessels Malaspina, Matanuska and Taku are approaching the ends of their useful lives and it is management's belief that these boats should be replaced by day boat shuttle ferry operations. It is envisioned that these clone shuttles would operate in North Lynn Canal, between Ketchikan and Prince Rupert and potentially Prince William Sound. These vessels are being designed to be very economical and will provide for more efficient scheduling in high volume areas. In turn, these new vessels will allow for increased efficiencies through greater asset utilization.

B1: Strategy - Increase revenues.

Target #1: Increase onboard sales per passenger by 5% over the previous 3-year average.
Status #1: Onboard sales per passenger were $28.63, which is a 4.5% decrease from the previous 3-year average of $29.98.



Methodology: Target is 5% increase from prior 3-year average.

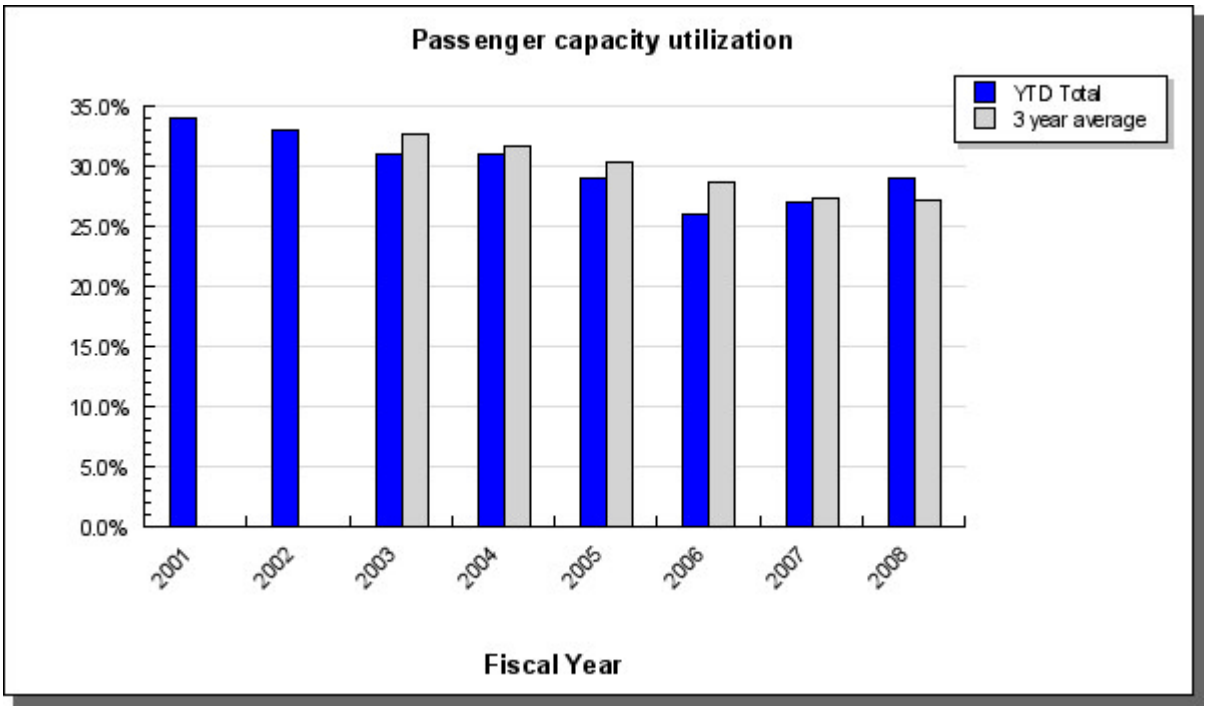
On-board sales per passenger compared to 3 year average

Fiscal Year	YTD Total	3 year average
FY 2008	$28.63	$29.49
FY 2007	$29.79	$29.98
FY 2006	$30.06	$30.14
FY 2005	$30.09	$29.55
FY 2004	$30.27	$28.14
FY 2003	$28.19	$25.11
FY 2002	$25.97	
FY 2001	$21.19	

Analysis of results and challenges: The Alaska Marine Highway System (AMHS) continues to look at increasing ship board generated revenues. At the beginning of FY2008 a 3.2% increase was placed on staterooms to reflect the market demand of these ship board services. During FY2008 the Malaspina was converted from a long haul

vessel into a day boat operation which has a drastic effect on on-board sales as the vessel's staterooms are not sold. This ratio was also impacted by the summer breakdown of the Columbia which is a major provider of passenger service income streams.

Target #2: Increase passenger capacity utilization by 3%.
Status #2: Passenger capacity utilization was 29%, which is a 6% increase over the prior 3-year average of 27.3%.



Methodology: Target is 3% increase compared to 3-year average.
The analysis converts capacity data into passenger miles by taking the sum of each trip's passenger capacity and multiplying it by the distance the ship travels. This produces the capacity number. Next, the analysis considers the actual sum of passengers that were on board and multiplies that number by the distance they traveled. This produces the utilized number. Finally, the utilized number is divided by the capacity number to produce the utilization percentage.

Passenger capacity utilization

Fiscal Year	YTD Total	3 year average
FY 2008	29%	27.2%
FY 2007	27%	27.3%
FY 2006	26%	28.7%
FY 2005	29%	30.3%
FY 2004	31%	31.7%
FY 2003	31%	32.7%
FY 2002	33%	
FY 2001	34%	

Analysis of results and challenges: In FY2008 the Alaska Marine Highway System (AMHS) saw increased customer utilization, as a direct result of providing a consistent schedule, mitigating the reduction in service to Bellingham by emphasizing travel thorough Prince Rupert, British Columbia and increasing service to Sitka and the Lynn Canal communities.

AMHS remains committed to the current schedule and will strive for the earliest possible schedule releases. It is anticipated that passenger and car deck utilizations will continue to increase.

Key RDU Challenges

As the cost of providing service has increased, primarily due to negotiated wage increases, pension cost increases as well as escalating fuel expense, the ability to successfully pass these increases onto the traveling public has been very problematic. The AMHS completed a rate study to evaluate base fares on a mile by mile basis, and looked at fares which could be considered over or under priced. The study indicated there should be modest tariff increases over the next few years. Due to the current economic situation in the United States, the AMHS made the decision not to raise tariffs at this time.

AMHS is in the process of designing a new class of shuttle ferry. It is assumed that three of these new shuttle ferries would eventually replace two of the older mainline vessels in the fleet. These new additions will be designed to reduce costs and provide greater fleet wide flexibility in their use, thus increasing revenue per rider mile while reducing operating expenses per rider mile.

AMHS continues to evaluate the total cost of providing service in addition to fostering a focused marketing campaign to continue to increase rider-ship and revenues.

As the fleet vessels age, challenges include additional maintenance requirements, and possible reductions in both state and federal funding to accomplish the increasing maintenance. The combination of reduced funding and increasing maintenance demands will be some of the system's greatest challenges going into the future. With the construction of the new class of shuttle ferry, future maintenance costs on both the state and federal sides would be reduced over many years.

Significant Changes in Results to be Delivered in FY2010

The Alaska Marine Highway System operating plan must be developed based on anticipated system revenues, general fund subsidies, and the AMHS fund balance. Budget requests will allow continued year-round safe, reliable and efficient transportation of people, goods and vehicles on the Alaska Marine Highway.

Cost saving measures have been pursued aggressively to decrease the impact of transportation services provided to Alaskans and visitors to the state. As the price of fuel continues to increase, the AMHS has started a program of installing a power management, fuel savings system aboard our vessels. The M/V Aurora was used as the initial test bed for this new system and to-date the vessel has seen approximately a 17% savings in fuel consumption. The AMHS will continue to install these systems aboard the remaining vessels.

The AMHS continues to work at reducing the premium holdover and early callback overtime which has been experienced aboard all vessels. The change in operating schedules of both the vessels Malaspina, and Kennicott, has delivered positive results. The continued development of the AMHS automated dispatch system will also result in the more efficient dispatch of crew, which will yield operational cost savings.

Major RDU Accomplishments in 2008

- Kept up to eleven AMHS vessels crewed and in service by completing annual overhauls and meeting federal certification requirements.
- Maintained the International Safety Management (ISM) Code program certification required for AMHS vessels to visit Canadian ports. AMHS is the only U.S. flag, vehicle-passenger vessel fleet with overnight accommodations to have earned this certification. This certification has become the safety standard for the entire AMHS fleet.
- Successfully trained all vessel employees to the highest international standards of basic safety training and ship familiarization set by federal Standards for Training, Certification, and Watch-keeping for Seafarers (STCW) requirements.
- Successfully maintained qualified officers to operate the fast ferries under the International High Speed Code.
- Met the federal and international safety requirements for accountability of passengers.

- Terminal facilities were kept safely and reliably operating.
- Continued a proactive and aggressive marketing effort. For example, round trip discounts were offered during the winter months to stimulate ridership during that historically slow time of the year. Targeted specials were also continued, along with aggressive targeted advertising, which yielded positive results.
- In 2008 both passenger and vehicle ridership showed an increase in numbers from those of 2007.
- Worked with the Marine Transportation Advisory Board, taking into account their input regarding AMHS operations and long-range planning.
- Commenced the implementation of the federally mandated Transportation Worked Identification Card program. This regulation required that all AMHS employees who needed unescorted access to secure vessel and terminal areas had to obtain a new biometric identification card. The process was both financially and logistically a challenge to the system.
- Initiated the process of developing a new generation reservation system. This system will not only improve reservations efficiency, but will also enhance the efficiency of all points of sale, and finances coming on and off our vessels.
- Furthered the process of the systematic maintenance, upgrade, and new construction process of the AMHS Shoreside facilities.
- Completed all state capital maintenance, and regulatory vessel periods, along with the federally sponsored major overhauls of the vessels Columbia and Aurora. State sponsored overhauls were conducted in Ketchikan and Seward, Alaska.
- Progress continues on the development of the new Automated Time and Labor Advanced Scheduling (ATLAS) system.
- Moved forward with the installation of satellite systems aboard AMHS vessels which will allow for 24/7 communications with Shoreside management, and will be required for the efficient real time operations of the new reservation system being developed.

Contact Information

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Marine Highway System
RDU Financial Summary by Component

All dollars shown in thousands

	FY2008 Actuals				FY2009 Management Plan				FY2010 Governor			
	General Funds	Federal Funds	Other Funds	Total Funds	General Funds	Federal Funds	Other Funds	Total Funds	General Funds	Federal Funds	Other Funds	Total Funds
Formula Expenditures												
None.												
Non-Formula Expenditures												
Marine Vessel Operations	87,882.9	0.0	37,208.8	125,091.7	102,390.6	0.0	33,030.4	135,421.0	73,790.6	0.0	33,030.4	106,821.0
Marine Engineering	24.6	0.0	2,690.0	2,714.6	0.0	0.0	3,068.7	3,068.7	15.8	0.0	3,097.2	3,113.0
Overhaul	0.0	0.0	1,696.3	1,696.3	0.0	0.0	1,698.4	1,698.4	0.0	0.0	1,698.4	1,698.4
Reservations and Marketing	764.3	0.0	1,666.2	2,430.5	700.0	0.0	2,444.6	3,144.6	750.9	0.0	2,444.6	3,195.5
Marine Shore Operations	183.6	0.0	5,947.4	6,131.0	0.0	0.0	6,645.0	6,645.0	134.6	0.0	6,645.0	6,779.6
Vessel Operations Management	115.0	0.0	3,547.0	3,662.0	0.0	0.0	3,698.3	3,698.3	95.1	0.0	3,698.3	3,793.4
Totals	**88,970.4**	**0.0**	**52,755.7**	**141,726.1**	**103,090.6**	**0.0**	**50,585.4**	**153,676.0**	**74,787.0**	**0.0**	**50,613.9**	**125,400.9**

Marine Highway System
Summary of RDU Budget Changes by Component
From FY2009 Management Plan to FY2010 Governor

All dollars shown in thousands

	General Funds	Federal Funds	Other Funds	Total Funds
FY2009 Management Plan	**103,090.6**	**0.0**	**50,585.4**	**153,676.0**
Adjustments which will continue current level of service:				
-Marine Vessel Operations	-30,897.6	0.0	-1,950.0	-32,847.6
-Marine Engineering	15.8	0.0	28.5	44.3
-Reservations and Marketing	50.9	0.0	0.0	50.9
-Marine Shore Operations	134.6	0.0	0.0	134.6
-Vessel Operations Management	95.1	0.0	0.0	95.1
Proposed budget increases:				
-Marine Vessel Operations	2,297.6	0.0	1,950.0	4,247.6
FY2010 Governor	**74,787.0**	**0.0**	**50,613.9**	**125,400.9**